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EXCISE

DSI

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INQUIRE=DOC15D

ITEM NO=00107116

ENVELOPE

CDSN = LGX993 MCN = 91196/04578 TOR = 911960616

RTTCZYUW RUEKJCS6218 1960616-CCCC--RUEALGX.

ZNY CCCCC

HEADER

R 150616Z JUL 91

FM JOINT STAFF WASHINGTON DC

INFO RUEADWD/OCSA WASHINGTON DC

RUENAAA/CNO WASHINGTON DC

RUEADWD/PTC WASH DC

RUSNNOA/USCINCEUR VAIHINGEN GE

RUFGAID/USEUCOM AIDES VAIHINGEN GE

RUEOFAA/COMJSDC FT BRAGG NC//J2//

RUCQVAB/USCINCSOC INTEL OPS CEN MACDILL AFB FL

RUCJACC/USCINCCENT MACDILL AFB FL//CARA//

RUWSMXI/MAC INTEL CEN SCOTT AFB IL//IN//

RUEQACC/CDRPSYOP GP FT BRAGG NC//ASOF-POG-SB//

RHCGSRB/COMUSARCENT FT MCPHERSON GA//AFRD-DSO//

RUEALGX/SAFE

R 150605Z JUL 91

FM AMEMBASSY RIYADH

TO RUEHC/SECSTATE WASHDC 0769

INFO RUEATRS/TREASURY WASHDC

RUCPDC/USDOC WASHDC

RUEHBM/GCC COLLECTIVE

RUFHLD/AMEMBASSY LONDON 4000

RUFHBG/AMEMBASSY LUXEMBOURG 0051

RUEHHK/AMCONSUL HONG KONG 0179

RUEHKO/AMEMBASSY TOKYO 0853

RUEHIL/AMEMBASSY ISLAMABAD 2888

BT

CONTROLS

C O N F I D E N T I A L SECTION 01 OF 02 RIYADH 06218

USDOC FOR 4520/IEP/ANESA/ONE/JBJOHNSON

TREASURY FOR OASIA/ICE

E.O. 12356: DECL: OADR

/***** THIS IS A COMBINED MESSAGE *****/

BODY

TAGS: EFIN, SA

SUBJECT: UNAFFECTED, SAUDIS WATCH BCCI SAGA UNFOLD FROM
THE WINGS

1. CONFIDENTIAL - ENTIRE TEXT

2. SUMMARY. SAUDIS ARE TAKING A DETACHED AND BEMUSED

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DEPARTMENT OF STATE

☐ RELEASE ☐ DECLASSIFY
☒ EXCISE ☒ DECLASSIFY
☐ DENY IN PART
☐ DELETE Non-Responsive Info
FOIA Exemptions B1
PA Exemptions

IS/FPC/CDR

MR Cases Only:

EO Citations

Date

9/8/94

TS authority to

☐ CLASSIFY as ☐ S or ☐ C OADR
☐ DOWNGRADE TS to ☐ S or ☐ C OADR

VIEW OF THE BCCI AFFAIR, DOWN-PLAYING THE "CONSPIRACY" THEORIES WIDESPREAD IN THE UK AND EMIRATES ABOUT THE BANK OF ENGLAND'S MOTIVATIONS IN SUSPENDING BCCI OPERATIONS. ALTHOUGH INDIVIDUAL SAUDIS AND EXPATRIATE DEPOSITORS MAY HAVE BEEN HURT BY FREEZES ON BCCI ACCOUNTS, SAUDI BANKERS SAY THEY HAD LONG SINCE TERMINATED ANY INSTITUTIONAL RELATIONSHIPS WITH THE TROUBLE-RIDDEN BCCI. BANKERS REMAIN CONCERNED, HOWEVER, OVER THE POSSIBLE SPILL-OVER EFFECT OF THE FREEZE ON COUNTERPART AND CORRESPONDENT BANKS IN THE GULF AND ELSEWHERE. END SUMMARY.

3. WITHOUT SIGNIFICANT EXPOSURE TO OR INTERESTS IN BCCI, SAUDI BANKERS AND REGULATORS ARE WATCHING THE SAGA UNFOLD WITH AN AIR OF BEMUSED CURIOSITY. ALTHOUGH THE AFFAIR IS BEING GIVEN PROMINENT ATTENTION IN THE SAUDI PRESS AND BANKERS ARE EXCHANGING THE LATEST RUMORS AND STORIES (ALBEIT A DAY OR SO AFTER THEY CIRCULATE IN THE UAE OR LONDON), SAUDI BANKERS FEEL DETACHED FROM THE FUROR AND ARE TAKING PART IN A BIT OF SELF-SATISFIED "I TOLD YOU SO."

4. SAUDI BANKERS SAY THE ODOR OF SCANDAL AND NOTORIETY THAT HAD SURROUNDED BCCI FOR MANY YEARS HAD THE EFFECT OF TURNING NORMALLY SUPER-CAUTIOUS SAUDI BANKS AWAY FROM DEALINGS WITH BCCI. THE NATIONAL COMMERCIAL BANK (NCB), THE KINGDOM'S LARGEST BANK, LED THE RETREAT IN 1988-89 WHEN IT SOLD ITS LONGSTANDING EQUITY INTEREST AND CUT ALL COMMERCIAL DEALINGS FOLLOWING REPORTS OF NARCOTICS MONEY LAUNDERING INVOLVING BCCI. OTHER SAUDI BANKS FOLLOWED NCB'S LEAD, SO THAT WHEN BCCI ACCOUNTS WERE FROZEN LAST WEEK, THE MOST EXPOSURE ANY SINGLE SAUDI BANK COULD REPORT WAS AN OUTSTANDING USD 100,000 TRADE FACILITY. (DUE TO THE STRICT REGULATION OF SAUDI BANKS, BANKERS ARE ESPECIALLY CHARY OF ANY HINT OF IMPROPRIETY

B1

BANKERS' BELIEF THAT THE AFFAIR WILL HAVE NO DOMESTIC BANKING IMPACT WAS ALSO SECONDED BY SAUDI ARABIAN MONETARY AGENCY (SAMA) AND GCC FINANCIAL OFFICIALS IN CONVERSATIONS WITH US AND OUR BRITISH COLLEAGUES -- WHO HAVE BORNE THE BRUNT OF LOCAL OFFICIAL INTEREST IN THE CASE.

5. BANKERS' REMAINING CONCERNS FOCUS ON THE POTENTIAL SPILL-OVER EFFECT OF THE FREEZE ON BCCI ACCOUNTS. SOME INDIVIDUAL SAUDIS AND ASIAN EXPATRIATES, ATTRACTED BY BCCI'S HIGHER THAN MARKET RETURNS ON DEPOSITS, MAY HAVE HAD PERSONAL FUNDS ON DEPOSIT WITH BCCI, IN SOME CASES WE HAVE HEARD OF IN SUBSTANTIAL AMOUNTS. THIS WAS PARTICULARLY TRUE FOR THE BCCI BAHRAIN BRANCH, WHICH, UP UNTIL A FEW WEEKS AGO, HAD BEEN AGGRESSIVELY PURSUING THE

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"SUITCASE BANKING" BUSINESS IN SAUDI ARABIA (SUCH AS WITH FULL-PAGE NEWSPAPER ADVERTIZING SPREADS).

6. SAUDI BANKERS REMAIN, HOWEVER, SOMEWHAT CONCERNED ABOUT THE SECONDARY EFFECTS OF THE BCCI FREEZE ON COUNTERPART BANKS IN THE GULF AND ELSEWHERE THAT MAY HAVE BEEN MORE DEEPLY INVOLVED WITH BCCI. THE MYSTERY SURROUNDING THE EXTENT OF BCCI INTERESTS IN GULF BANKS, HOWEVER, IS MAKING IT DIFFICULT FOR SAUDI BANKERS TO ASSESS THEIR EXPOSURE TO SUCH BANKS.

7. THE SAUDI PRESS, WHICH ORIGINALLY TOOK THE VIEW THAT THE BANK OF ENGLAND ACTION WAS PROOF OF A FIRST WORLD FINANCIAL "CONSPIRACY" AGAINST AN UPSTART AND INTERLOPING THIRD WORLD BANK, HAS SINCE MODERATED ITS LINE. IN AN INTERVIEW "DEBUNKING" THE CONSPIRACY THEORY, WAHIB BIN ZAQR, THE CHAIRMAN OF THE SAUDI CAIRO BANK AND A RESPECTED BUSINESS LEADER, SAID, "THE WAY BCCI HAD BEEN CONDUCTING ITS BUSINESS OVER THE PAST 20 YEARS RAISED

/***** BEGINNING OF SECTION 002 *****/
MANY QUESTIONS... A LACK OF DISCIPLINE AND PROFESSIONALISM LED THE BANK TO PLAY RISKY GAMES AT THE EXPENSE OF THE DEPOSITORS AND SHAREHOLDERS." IN AN OBLIQUE CRITICISM, _____ BIN ZAQR ADDED THAT THE "REAL PROBLEM" IS FOR "THOSE SHAREHOLDERS WHO HAVE ENOUGH MONEY BUT DO NOT KNOW HOW TO USE IT... THIS IS YET ANOTHER BLACK CHAPTER IN THE HISTORY OF EXTERNAL ARAB BANKING RESULTING IN DESTROYING ARAB WEALTH BECAUSE OF LACK OF EXPERIENCE." AS A RESULT, BIN ZAQR EXPECTED AN ADDITIONAL LOSS OF CONFIDENCE IN GULF BANKS ALREADY BUFFETED BY THE GULF WAR. HE THOUGHT THAT THE AFFAIR MIGHT, HOWEVER, HAVE THE BENEFICIAL EFFECT OF ATTRACTING REGIONAL BUSINESS TO THE WELL-RUN AND REGULATED SAUDI BANKING SECTOR.

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